

City of Rockville Retirement Board

September 4, 2009

PRESENT: Alex Espinosa, Chairperson; Gregory Hazlett, Citizen Representative; Anita McCombs, AAME Representative; Phyllis Marcuccio, Councilmember; Carlos Vargas for City Manager; Chris Peck, FOP Representative; Kyle France, Union Representative. Also in attendance were Gavin Cohen, Executive Secretary to the Board; Daisey Harley, Personnel Administrator; Tim Peifer, Financial Systems Manager; Marsha Mathis, Principal Financial Group; Michael Clark, Principal Financial Group, on conference call, as well as George Kiriakos and Taylor Dabrowski, Segal Advisors.

The meeting commenced at 10:00 a.m. with introductions. Mr. Clark dialed in and was available by conference call at shortly after 10:00.

I. Approval of Minutes from Meeting of July 17, 2009:

Mr. Espinosa asked for a motion to approve the minutes from the July 17, 2009 meeting and Mr. Hazlett moved and Mr. Espinosa seconded based on receiving the information that Mr. Quinn said he would provide in regards to administrative and investment costs of the Thrift Plan. All were in favor.

II. International Fund and Emerging Markets Review:

Mr. Cohen introduced the item and explained that the Board requested that Segal Advisors take a look at emerging markets exposure. He said that Mr. Kiriakos would be discussing an asset allocation study and the recent performance as well as the international/emerging markets search.

First, Mr. Kiriakos discussed the asset allocation. He explained the background of the assumptions used in the model as well as explaining the correlations of the asset classes. He reviewed the four potential portfolio mixes and the impact of the return percentiles and wealth percentiles. After a lengthy discussion, Mr. Hazlett moved to adopt Asset Mix 1: 25% Large Cap, 15% Small Cap, 15% International, 5% Emerging Markets, 25% Fixed Income, 15% Real Estate, Councilmember Marcuccio seconded. All were in favor.

Next, Mr. Kiriakos discussed the International Search. He and Ms. Dabrowski discussed given the asset size, if they were to present the Board with potential dedicated emerging markets managers they would be limited to institutional mutual funds, which would be twice the cost. Therefore, they presented an international search where the managers had a greater exposure (approximately 20-30%) to emerging markets within the portfolio. Mr. Kiriakos reviewed the managers in the search book both from the qualitative and the quantitative aspects. After discussion, Mr. Hazlett moved to interview three managers Artio Global Management, Manning & Napier, and Thornburg Investment Management and put in the hands of the sub-committee to analyze the three and any addition for the Board to present at the November meeting.

Mr. Vargas seconded. All were in favor. In addition, they are not going to interview SsgA (index manager); however, the Board has asked the sub-committee to consider the index manager in their final decision. Mr. Vargas asked the sub-committee to consider the "business risk" with Manning & Napier. They are currently the manager on the small cap portfolio for the Pension as well and the manager on the Retiree Benefit Trust. The sub-committee will interview the managers on October 15th or the 16th.

Next, Mr. Kiriakos and Ms. Dabrowski discussed the August 31, 2009 Flash report. Ms. Dabrowski noted that we are slightly out of target with the current asset allocation; however, when they transition the fixed income portfolio they will rebalance the Plan to the target. Ms. Dabrowski noted that they expect if the contract issues are resolved soon to transition the Principal Bond & Mortgage portfolio by the end of the third quarter of 2009. Ms. Dabrowski is coordinating a conference call to resolve these issues. Mr. Kiriakos stated that the August year-to-date numbers are in line. He stated that Prudential has not been looking good for a long time.

III. Investment Policy Guidelines:

Ms. Dabrowski reviewed the Pension Investment Policy Guidelines. She discussed the changes that were made. She stated that she needed to update one portion of the Guidelines given a recommendation from one of the Board Members. However, the Board Members approved the Guidelines given the change. She will send the revised Guidelines to Mr. Cohen and he will have them executed. Mr. Hazlett moved to approve the Guidelines. Ms. Marcuccio seconded. All were in favor.

IV. Review of April 1, 2009 Actuarial Report:

Mr. Clark joined in on conference call to present the April 1, 2009 Valuation Report. He started with stating that the account value is significantly different to actuarial value of plan. He said there was a huge loss to the account this year. He said that the asset smoothing is doing its job for 2009. He said the cost for the drop in the market will be paid for in future years. The numbers are daunting. Mr. Clark said that the standard rate of 7.75% interest was on the conservative side. Mr. Hazlett moved to approve April 1, 2009 Valuation Report and extend the asset smoothing from four years to five years for future valuation reports. Mr. Vargas seconded it. Councilmember Marcuccio abstained. All the rest of the Board Members approved.

The meeting was adjourned at 12:01 p.m.